

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of Southern California Gas Company
(U904 G) and San Diego Gas & Electric Company
(U902 G) for Authority to Revise their Natural Gas
Rates Effective January 1, 2017 in this Triennial
Cost Allocation Proceeding Phase 2

A.15-07-014
(Filed July 8, 2015)

**SOUTHERN CALIFORNIA GENERATION COALITION
REPLY BRIEF**

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GENERATION COALITION**

Dated: July 27, 2016

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**SOUTHERN CALIFORNIA GENERATION COALITION
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In accordance with Rule 13.11 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”) and the briefing schedule established by Administrative Law Judge Kenney,¹ the Southern California Generation Coalition (“SCGC”) respectfully submits this reply to the opening briefs of the Southern California Gas Company (“SoCalGas”) and San Diego Gas & Electric Company (“SDG&E”) (jointly, “Applicants”), the Office of Ratepayer Advocates (“ORA”), and The Utility Reform Network (“TURN”) filed in the captioned proceeding on July 6, 2016. This reply brief addresses the responses of the Applicants, ORA, and TURN to a single issue that was set for briefing:

Are there any recommended procedures and timeframes for determining whether, and to what extent, the authorized revenue requirement and revenues tracked by the memorandum account established by D.16-03-031 should be refunded to SoCalGas’ customers?

D.16-03-031 required SoCalGas to file an advice letter “to establish a memorandum account, effective immediately, to track SoCalGas’s authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas

¹ Administrative Law Judge’s Ruling Revising the Proceeding Schedule, p. 2 (May 20, 2016).

storage field.”² It appears there is consensus among the three parties that filed opening briefs that the issues about whether and to what extent revenues tracked in the memorandum account (“Aliso Canyon Revenue Memorandum Account” or “ACRMA”) should be refunded to SoCalGas’ customers are issues that should be addressed in a future proceeding, not the current proceeding, but there is disagreement about what that future proceeding should be.³

SCGC submits this reply brief to clarify the amounts that should be recorded in the ACRMA. Also, SCGC supports TURN’s recommendation and opposes the Applicants’ recommendation regarding the proceeding in which refunds should be considered.

I. THE AMOUNTS RECORDED IN THE ALISO CANYON REVENUE MEMORANDUM ACCOUNT SHOULD BE LIMITED TO THE AUTHORIZED REVENUE REQUIREMENT AND REVENUES.

The amounts recorded in the ACRMA must be limited to the authorized revenue requirement and the revenues received by SoCalGas to recover its business-as-usual costs to own and operate the Aliso Canyon gas storage field. In D.16-03-031, the Commission ordered SoCalGas “to establish a memorandum account, effective immediately, to track its authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate Aliso Canyon.”⁴ Those business-as-usual costs “include depreciation, rate-of-return, taxes, operations and maintenance, administrative and general, and all other direct and indirect costs that SoCalGas incurs to own and operate Aliso Canyon in the normal course of business.”⁵ The Commission emphasized: “Such costs exclude expenses associated with the recent gas leak at Aliso Canyon.”⁶ The Commission elaborated that the memorandum account should include revenues recovered from SDG&E customers:

² D.16-03-031, p. 8 (Ordering Paragraph 1) (March 17, 2016).

³ Applicants Opening Brief, p. 13; TURN Opening Brief, p. 42; ORA Opening Brief, p. 19.

⁴ D.16-03-031, p. 8 (Ordering Paragraph 1) (March 17, 2016).

⁵ *Ibid.*

⁶ *Ibid.*

“The revenues tracked by the memorandum account shall include actual and imputed revenues for Aliso Canyon-related costs allocated to San Diego Gas & Electric Company (SDG&E) and its customers.”⁷ Thus, the text of D.16-03-031 is completely clear about the revenues that SoCalGas shall record in the ACRMA.

Furthermore, the authorized revenue requirement that shall be recorded in the ACRMA is also clear. In the settlement agreement filed in this proceeding on May 27, 2016, the settling parties, including SoCalGas, agreed that the annual revenue requirement for the TCAP cycle years 2017, 2018, and 2019 for Aliso Canyon is \$70.8 million:

Settling Parties agree that \$70.8 million represents a capacity-based and embedded cost-based approximation of the total of the normal, previously approved costs to own and operate Aliso Canyon that would be included in the rates and charges adopted in this proceeding for the years 2017, 2018, and 2019. The \$70.8 million total includes \$43.8 million for Aliso Canyon operations estimated based on 2013 embedded storage costs, and \$27 million for the Aliso Canyon Turbine Replacement project (ACTR) that is anticipated to go into service and become eligible for rate recovery by January 1, 2017.⁸

However, there is a degree of confusion about whether “actual costs” in addition to the costs that are included in the \$70.8 million revenue requirement should be recorded in the ACRMA. In Advice Letter (“Advice”) 4940 filed by SoCalGas in purported compliance with D.16-03-031, SoCalGas proposed to establish an “Aliso Canyon Revenue *and Cost* Memorandum Account” (“ACRCMA”) that would include “actual costs” in addition to the Aliso Canyon revenue requirement and revenues.⁹ SoCalGas recognized that recording actual costs beyond the costs included in the revenue requirement associated with normal business-as-usual ownership and operation of Aliso Canyon went beyond what was directed by D.16-03-031: “Although D.16-03-031 does not provide for the tracking of related costs associated with the operation of Aliso Canyon, SoCalGas believes that the Commission would and

⁷ *Ibid*, p. 3 (footnote 6).

⁸ Joint Motion for Adoption of TCAP Phase 2 Settlement, Attachment A, p. A-5 (May 27, 2016).

should find probative and relevant the actual costs associated with Aliso Canyon business-as-usual operation.”¹⁰ TURN and SCGC jointly protested Advice 4940 on April 13, 2016 and urged the Commission to limit the new memorandum account to the scope ordered in D.16-03-031.¹¹

By letter order dated July 11, 2015, five days after the filing of opening briefs in this proceeding, the Energy Division directed SoCalGas to “file a supplement with revisions to the proposed tariff language to be consistent with the terminology used in Decision (“D.”) 16-03-031.¹² Specifically the Energy Division ordered SoCalGas to file a supplement to Advice 4940 “to replace ‘actual cost’ with ‘normal, business-as usual costs (excluding expenses associated with the recent gas leak of Aliso Canyon).’”¹³

As of the time of the filing of this reply brief, SoCalGas has not filed a revision of Advice 4940 to comply with the Energy Division’s July 11, 2015 letter order. However, it is clear that actual revenues but not “actual costs” should be recorded in the ACRMA.

II. THE COMMISSION SHOULD DETERMINE WHETHER REVENUES RECORDED IN THE ACRMA SHOULD BE REFUNDED TO RATEPAYERS IN A LATER PROCEEDING COVERING THE RANGE OF ALISO CANYON-RELATED RATE MAKING ISSUES.

D.16-03-054 regarding the Applicants’ most recent general rate cases in A.14-11-003 and A.14-11-004 established that there will be a future proceeding to determine the extent to which the revenues recovered by the Applicants to cover the business-as-usual cost of Aliso Canyon as recorded in the ACRMA should be refunded to ratepayers. The Commission stated in D.16-03-054:

As noted in D.16-03-031, the Commission plans to establish a procedure or proceeding to address whether normal, business-as-usual costs and revenues associated with Aliso Canyon should be refunded to ratepayers.

⁹ Advice 4940, p. 1 (March 24, 2016) (emphasis added).

¹⁰ Advice 4940, p. 2 (emphasis in original).

¹¹ Joint Protest of TURN and SCGC, p. 1 (April 13, 2016), attached as Attachment A.

¹² Letter Order regarding SoCalGas Advice Letter 4940, p. 1 (July 11, 2015), attached as Attachment B.

¹³ *Ibid*, p. 2.

Such a procedure or proceeding reassures us that if all or parts of Aliso Canyon are shut down for all or some portion of the TY 2016 GRC cycle, that the amounts for underground storage activities authorized in today's decision will not be diverted for other uses. If some or all of the Aliso Canyon storage wells are shut down during any part of the TY 2016 GRC cycle, the memorandum account established pursuant to D.16-03-031 will allow the Commission to track, and make subject to refund, any unspent amounts that are targeted for underground storage activities.¹⁴

Also, the Commission explained in D.16-06-054 that the Commission would issue an Order Instituting Investigation ("OII") after the Commission's Safety and Enforcement Division ("SED") submits a report on the causes of the well leakage at Aliso Canyon:

Currently, the Commission's SED is investigating the causes of the well leakage at Aliso Canyon. Until that report is finished, it is premature for the Commission to open an Order Instituting Investigation into the causes of the Aliso Canyon leakage, whether past expenditures were appropriately spent to detect these kinds of problems, and whether SoCalGas' ratepayers should bear any responsibility for the various costs incurred as a result of the leakage at Aliso Canyon. Those are all issues that should be examined in a future proceeding.¹⁵

In its opening brief, TURN recommends that the issue about refunding revenues recorded in the ACRMA should be included as "part of the range of Aliso Canyon-related ratemaking issues" that would be addressed in a later proceeding: "The disposition of the memorandum account's balance would be expected to be a part of the range of Aliso Canyon-related ratemaking issues addressed in a later proceeding."¹⁶ The "later proceeding" referenced by TURN should be the proceeding that the Commission would initiate through an OII that the Commission would issue after the SED report on the Aliso Canyon leak is finished.

In contrast to TURN's proposal for considering a refund of revenues recorded in the ACRMA, SoCalGas seeks to segregate the refund issue from other Aliso Canyon ratemaking issues so refunds would be considered in a separate, later proceeding:

The Commission will not begin a future proceeding relating to the Aliso Canyon leak until after its Safety Division completes its root cause analysis. Any decision regarding a possible refund of Aliso Canyon revenue requirements should likewise be delayed until *both* the root cause

¹⁴ *Ibid.*

¹⁵ D.16-06-054, p. 251 (June 23, 2016).

¹⁶ TURN Opening Brief, p. 42 (July 6, 2016).

analysis and the Commission's future proceeding relating to the Aliso Canyon leak are completed.¹⁷

The Commission should categorically reject SoCalGas' proposal for the issue about refunding amounts recorded in the ACRMA to be considered in a proceeding separate from and following the proceeding that would commence after the SED completes its root cause analysis of the Aliso Canyon leak.

SoCalGas' culpability for the Aliso Canyon leak and the extent to which Aliso Canyon was not used and useful to serve customers will be determined in the investigatory proceeding. The determination of refunds should be made in that proceeding insofar as it will be the record created in that proceeding that would be the basis for determining whether there should be refunds of revenues recorded in the ACRMA. Thus, SCGC recommends that the Commission adopt TURN's recommendation for a single Aliso Canyon case and reject SoCalGas' proposal to bifurcate the investigatory and refund proceedings.

III. CONCLUSION.

For the reasons set forth above, SCGC recommends that the Commission continue to require in its decision in this proceeding that only Aliso Canyon-related revenues and not Aliso Canyon "actual costs" be recorded in the ACRMA and that the refunding of the revenues recorded in the ACRMA be considered in the investigatory proceeding that would commence after the SED issues its report on the root causes for the Aliso Canyon leak.

Respectfully submitted,

/s/ Norman A. Pedersen

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Attorneys for the **SOUTHERN CALIFORNIA
GENERATION COALITION**

Dated: July 27, 2016

¹⁷ SoCalGas Opening Brief, p. 13 (July 6, 2016).

ATTACHMENT A

April 13, 2016

California Public Utilities Commission
Energy Division
Attention: Tariff Unit
505 Van Ness Avenue
San Francisco, CA 94102

Re: Joint Protest of TURN and SCGC to SoCalGas Advice Letter 4940
(Request to Establish the Aliso Canyon Revenue and Cost Memorandum
Account)

Dear Energy Division:

On March 24, 2016, Southern California Gas Company (SoCalGas) served Advice Letter (A.L.) 4940 seeking authorization to establish a new memorandum account the utility proposes to call the Aliso Canyon Revenue and Cost Memorandum Account (ACRCMA). SoCalGas contends that its filing is in compliance with Ordering Paragraph 1 of D.16-06-031, in which the Commission directed the utility to establish a memorandum account “to track its authorized revenue requirement and all revenues SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field.”¹

The Utility Reform Network (TURN) and Southern California Generation Coalition (SCG&C), jointly protest SoCalGas’s advice letter, and urge the Commission to limit the authorization of the new memorandum account to the scope discussed and authorized in D.16-03-031.

The Commission described the new memorandum account as one that would “track SoCalGas’s authorized revenue requirement and all revenues that SoCalGas receives for its normal, business-as-usual costs to own and operate the Aliso Canyon gas storage field.”² SoCalGas has sought to unilaterally expand the scope of the memorandum account to also track the “actual costs” it incurs for its business-as-usual operations. The attempted expansion would be inappropriate here even if SoCalGas were seeking this additional relief for the first time in its advice letter. But SoCalGas is renewing an earlier request that the Commission tacitly rejected when it did not make the utility-requested changes to the Proposed Decision.³ SoCalGas should not be permitted to benefit by

¹ SCG AL 4940, p. 1.

² D.16-03-031, Ordering Paragraph 1 [emphasis added].

³ On March 8, 2016, ALJ Kenney issued a draft decision in the TCAP Phase 2 proceeding (A.15-07-014) that would have directed SoCalGas to create a memorandum account to track “revenues received,” and included language indicating that the period for public review and comment was waived due to “public necessity” under Rule 14.6(c)(9). Despite the waiver of the opportunity for comments, on March 14, Brian Prusnek of the Semptra Utilities sent a letter with the heading “Ex Parte Comments regarding the Proposed Decision”³ The letter proposed two “technical edits,” the first of which was “costs should be tracked

renewing the request in the advice letter ordered in D.16-03-031, especially where the utility makes no mention of its earlier failed attempt to gain such relief.

In addition to its failure to mention the earlier rejection of its request, SoCalGas fails to explain why its requested relief is necessary. The utility forthrightly concedes that D.16-03-031 did not authorize the tracking of costs, but announces that it should be allowed to do so anyway “such that the Commission can make an informed decision on how to treat the ACRCMA balance.”⁴ The utility does not explain why the expanded scope of the memorandum account is necessary to permit the Commission’s later decision to be “informed.” Nor does SoCalGas explain why it believes its preferred expansion of the scope of the memorandum account is necessary in order for it to have an opportunity to present such information about its recorded costs when the Commission reviews the amount recorded in the memorandum account. Absent any meaningful effort to justify its requested expansion, the Commission should reject the request due to the utility’s failure to establish it as reasonable under the circumstances.

The Commission should direct SoCalGas to re-submit the proposed tariff language with revisions to make it more consistent with D.16-03-031. This would require, at a minimum, removal of the following language:

- the reference to “Cost” in the name of the memorandum account’
- the third sentence after the “Purpose” heading;⁵
- all references to and description of a “Cost Subaccount;”
- the section on “Cost Subaccount – Accounting Procedures.”

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as well as revenues ... for future consideration by the Commission.” The second point proposed a change related to tracking revenues, so the utility would track “authorized revenues” rather than “revenues received.” On March 16, ALJ Kenney issued a revised PD that made the second of the requested changes, to specify that “authorized revenues” are to be tracked. It made no change to add cost tracking, and it makes no mention of SoCalGas’s letter. The Commission adopted the revised PD at its March 17, 2016 business meeting.

⁴ A.L. 4940, p. 2.

⁵ “In addition, in order to ensure that the Commission can make an informed decision on the disposition of the ACRCMA balance, the ACRCMA will track the actual costs associated with Aliso Canyon Storage Field operations.”

Thank you for your attention to this matter.

Respectfully submitted,

/s/_____
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San Francisco, CA 94103
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On behalf of TURN and SCGC

cc: Edward Randolph, Director, Energy Division
Sid Newsom, Tariff Manager, SoCalGas
Service List for 2017 TCAP, Phase 2 – A.15-07-014

ATTACHMENT B

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



July 11, 2015

Ronald van der Leeden
Director, Regulatory Affairs
Southern California Gas Company
555 W. Fifth Street, GT14D6
Los Angeles, CA 90013-1011

Subject: Southern California Gas Company (SoCalGas) Advice Letter 4940 for establishment of the Aliso Canyon Revenue and Cost Memorandum Account in compliance with Decision (D.) 16-03-031

Dear Mr. van der Leeden:

Energy Division has determined that SoCalGas must file a supplement with revisions to the proposed tariff language to be consistent with the terminology used in Decision (D.) 16-03-031. D.16-03-031 directed SoCalGas to set up a memo account to track "normal, business-as-usual costs" (excluding expenses associated with the recent gas leak at Aliso Canyon). As filed, SoCalGas AL 4940 uses the term "actual costs" which is not in compliance with D.16-03-031.

Background

SoCalGas Advice Letter 4940 is seeking authorization to establish a new memorandum account called the Aliso Canyon Revenue and Cost Memorandum Account (ACRCMA) in compliance with D.16-03-031. SoCalGas is currently collecting revenues from its customers for the normal, business-as-usual costs to own and operate a fully functional Aliso Canyon, even though gas is not being injected into Aliso Canyon at this time due to the recent gas leak. To protect SoCalGas' customers from unwarranted costs, D.16-03-031 approved on March 17, 2016, ordered SoCalGas to establish a memorandum account, effective immediately, to track SoCalGas' authorized revenue requirement. Finding of Fact 4 of D.16-03-031 also states that SoCalGas' current rates and charges do not include any costs incurred by SoCalGas in response to the recent gas leak in Aliso Canyon.

Protests and Reply

On April 13, 2016, the Utility Reform Network (TURN) and Southern California Generation Coalition (SCGC) filed a timely protest to AL 4940. TURN and SCGC argue that SoCalGas is seeking to expand the scope of the memo account to track the "actual costs" incurred for the operation of the Aliso Canyon gas storage field, whereas, D.16-03-031 uses the language "normal, business-as-usual" costs to own and operate the Aliso Canyon gas storage field.

In its April 20, 2016 reply to the protest, SoCalGas states that the expansion of the memo account is necessary as the limited scope authorized in D.16-03-031 only allows for part of the relevant information to be tracked.

Discussion

After review and analysis, Energy Division staff agrees with TURN/SCGC. SoCalGas should file a supplement to AL 4949 to replace "actual costs" with "normal, business-as-usual costs (excluding expenses associated with the recent gas leak at Aliso Canyon)." As mentioned in the TURN/SCGC protest, SoCalGas filed an ex parte letter to the proposed draft decision requesting that the language in the decision be expanded to include "actual costs." The Commission specifically chose not to expand the language and adopted the decision using the "normal, business-as-usual costs."

Energy Division staff has determined that SoCalGas Advice Letter 4940 should remain true to the language in D.16-03-031. The supplement shall include replacement tariff pages to AL 4940 with, at a minimum, removal of "actual costs" in the Purpose of the Preliminary Statement on the first page of the tariffs and to include "normal, business-as-usual" before each reference to costs.

Sincerely,

A handwritten signature in cursive script that reads "Gurbux Kahlon".

Gurbux Kahlon, Program Manager
Energy Division

cc: Sid Newsom, SoCalGas
Robert Finkelstein, TURN